

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6216

BILL NUMBER: SB 29

DATE PREPARED: Mar 22, 2002

BILL AMENDED: Mar 14, 2002

SUBJECT: Various Utility Issues.

FISCAL ANALYST: John Parkey

PHONE NUMBER: 232-9854

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (CCR Amended) This bill contains the following provisions:

It creates a Center for Coal Technology Research to develop technologies to advance the use of Indiana coal. The bill requires the Department of Commerce to pursue available private and public sources of money for the Coal Research Grant Fund. The bill eliminates the requirement in existing law that energy generating facilities must be primarily fueled by Indiana coal in order to recover in their rates construction costs for clean coal technologies, for construction that begins after March 31, 2002.

The bill encourages:

- (1) new energy generating facilities in Indiana that use clean coal technology and are fueled using Illinois Basin coal resources;
- (2) advanced technologies that reduce regulated air emissions from existing generating plants primarily fueled by Illinois Basin coal;
- (3) projects to provide electric transmission facilities to serve a new generating facility;
- (4) projects to develop alternative energy sources, including renewable energy projects; and
- (5) the purchase by energy utilities of fuels produced by coal gasification facilities in Indiana.

It directs the Indiana Utility Regulatory Commission (IURC) to encourage clean coal and energy projects through financial incentives. It provides that the IURC shall encourage and provide incentives for certain clean coal and energy projects only if the projects are reasonable and necessary.

It also directs the State Utility Forecasting Group to conduct an annual study on the use, availability, and economics of using renewable energy resources in Indiana and to submit a report of its findings to the IURC.

It allows the IURC to review any approved clean coal and energy project to determine that the project continues to comply with the IURC's order initially approving incentives for the project. It also allows the

IURC to revoke any incentive if it finds that the project no longer complies with the provisions in the order concerning the incentive.

It also provides that for ratemaking purposes, wages paid by a utility to an independent contractor for construction of clean coal and energy projects are not excessive if the wages are those normally paid for work of the same type and quality in the labor market.

Effective Date: (Amended) Upon passage; July 1, 2002.

Explanation of State Expenditures: (Revised) *IURC:* The bill could have an administrative impact on the IURC in so far as it will require the Commission to develop a mechanism for approving the clean coal and energy projects that qualify for the financial incentives provided in the bill. The bill will also require the IURC and Office of the Utility Consumer (OUCC) to develop an additional rate adjusting mechanism for qualifying utilities.

State Utility Forecasting Group: The bill expands the scope of the State Utility Forecasting Group. It requires the Group to conduct an annual study on the use, availability, and economics of using renewable energy resources in Indiana and to submit a report of its findings to the IURC for inclusion in the Commission's annual report to the Regulatory Flexibility Committee. The Group's activities are funded by the IURC.

While the provisions above could increase the costs of the IURC and OUCC, it is presumed that any increase will be covered using existing resources or using the funding mechanism currently provided for in law. (See *Background on IURC and OUCC Funding*, below.)

Department of Commerce: The bill requires firms which qualify for the incentives to submit a monthly report to the Department of Commerce on the quantity of Illinois Basin coal purchased for use in new generation facilities, the occupation and use taxes paid on the coal, and other information that the Department may require. The Department is expected to absorb any increase in administrative costs caused by the provision.

Center for Coal Technology Research: This proposal establishes the Center for Coal Technology Research and the Coal Technology Research Fund. The bill would allow the director of the Department of Commerce to:

- (1) organize the Center;
- (2) execute contracts for its operation;
- (3) receive money from any source;
- (4) expend money for appropriate activities;
- (5) execute agreements, cooperate with, and use the resources of Purdue University and other state educational institutions, governmental agencies, and interest groups; and
- (6) subject to the approval of the Budget Agency, employ personnel as necessary for the efficient administration of the Center's operations.

Any expenditures by the Center are indeterminable and will depend on the financial organization and operation of the Center. The proposal contains no appropriations.

The Budget Agency shall administer the Coal Technology Research Fund, created by this bill. The fund is established for the purpose of providing money for the Center and for the director to carry out the operations of the Center. The Budget Agency is expected to be able to administer the fund given its current resources.

The bill would allow qualifying energy producers to receive up to an additional 3% return on shareholder equity over what they would have otherwise received. If electricity rates increase, the state's utility costs could increase.

Background on IURC and OUCC Funding: The operating budgets of the IURC and OUCC are funded by regulated utilities operating in Indiana. The IURC determines the rate at which to bill the utilities based on the two agencies' budgets, less reversions, divided by the total amount of gross intra-state operating revenue received by the regulated utilities for the previous fiscal year. Based on this formula, utilities are currently billed approximately 0.10% of their gross intra-state operating revenues to fund the IURC and OUCC. In FY 2001, fees from the utilities and fines generated approximately \$8.6 M.

Explanation of State Revenues: (Revised) *Center for Coal Technology Research:* This proposal establishes the Coal Technology Research Fund. The fund consists of money appropriated by the General Assembly and gifts, grants, and bequests. Money in the fund at the end of a state fiscal year does not revert to the State General Fund. The Treasurer of State must invest money in the fund not currently needed to meet the obligations of the fund in the same manner as the Treasurer may invest other public funds. The establishment of the fund could result in an increase in state revenues if contributions to the fund are made by non-state sources.

If the provisions in this bill are able to generate new investment in Indiana, it could increase the revenue the state receives from the various corporate taxes. Likewise, if more jobs are created, the state's Income and Sales Tax base would also increase.

Explanation of Local Expenditures: Local governmental entities, including schools, would be subject to any increases in the cost of the electricity caused by the provisions in this bill.

Explanation of Local Revenues: If this bill encourages firms to make additional investments in Indiana, it could increase the property tax base of local taxing units.

State Agencies Affected: Indiana Utility Regulatory Commission; Office of the Utility Consumer Counselor; Department of Commerce; Legislative Council; Budget Agency; Treasurer of State.

Local Agencies Affected: Local governmental entities.

Information Sources: Mike Leppert, Executive Director, IURC, (317) 232-2714; Indiana Utility Regulatory Commission, *2000-2001 Annual Report*.